

CITY OF HARTLEY

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2010

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CITY OF HARTLEY

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January, 2010)		
Clayton Pyle	Mayor	January, 2010
Ian Coburn	Council Member	January, 2010
Jerry Olson	Council Member	January, 2010
Ann Petersen	Council Member	January, 2010
Kevin Snider	Council Member	January, 2012
Gina Wiekamp	Council Member	January, 2012
Brian Pals	City Clerk/Administrator	Indefinite
Dennis Cmelik	Attorney	Indefinite
(After January, 2010)		
Clayton Pyle	Mayor	January, 2012
Kevin Snider	Council Member	January, 2012
Gina Wiekamp	Council Member	January, 2012
Ron Hengeveld	Council Member	January, 2014
Brad Meendering	Council Member	January, 2014
Jerry Olson	Council Member	January, 2014
Brian Pals	City Clerk/Administrator	Indefinite
Dennis Cmelik	Attorney	Indefinite

HUNZELMAN, PUTZIER & CO., PLC
CERTIFIED PUBLIC ACCOUNTANTS

JEFFORY B. STARK, C.P.A.
RICHARD R. MOORE, C.P.A.
WESLEY E. STILLE, C.P.A. (RETIRED)
KENNETH A. PUTZIER, C.P.A. (RETIRED)
W.J. HUNZELMAN, C.P.A. 1921-1997

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
Hartley, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Hartley, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Hartley as of June 30, 2010, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2011, on our consideration of City of Hartley's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Budgetary comparison information on pages 23 and 24 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

City of Hartley, Iowa, has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Hartley's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for each of the years in the seven year period ended June 30, 2009 (which are not presented herein), and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

February 14, 2011

Hungelman, Pitzier & Co.

CITY OF HARTLEY
STATEMENT OF ACTIVITIES AND NET ASSETS – CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

Exhibit A

Functions/Programs:	Program Receipts				Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total
Governmental activities							
Public safety	\$ 277,500	\$ 79,800	\$ 10,525	\$ -	\$ (187,175)	\$ -	\$ (187,175)
Public works	241,661	14,736	160,756	7,227	(58,942)	-	(58,942)
Culture and recreation	202,073	28,346	13,743	-	(159,984)	-	(159,984)
Community and economic development	126,477	-	-	4,800	(121,677)	-	(121,677)
General government	86,688	890	-	-	(85,798)	-	(85,798)
Debt service	88,798	-	-	-	(88,798)	-	(88,798)
Total governmental activities	1,023,197	123,772	185,024	12,027	(702,374)	-	(702,374)
Business-type activities:							
Water	2,655,770	295,279	-	380,796	-	(1,979,695)	(1,979,695)
Sewer	608,587	197,826	-	174,977	-	(235,784)	(235,784)
Electric	1,404,686	1,511,849	-	-	-	107,163	107,163
Gas	928,427	1,113,278	-	-	-	184,851	184,851
Solid Waste	101,971	126,139	-	-	-	24,168	24,168
Consumer Deposit	14,530	11,875	-	-	-	(2,655)	(2,655)
Cable	133,986	244,613	-	-	-	110,627	110,627
Total business-type activities	5,847,957	3,500,859	-	555,773	-	(1,791,325)	(1,791,325)
Total	\$ 6,871,154	\$ 3,624,631	\$ 185,024	\$ 567,800	(702,374)	(1,791,325)	(2,493,699)
General Receipts and Transfers:							
Property and other city tax levied for:							
General purposes					302,921	-	302,921
Tax increment financing					189,906	-	189,906
Local option sales tax					106,729	-	106,729
Loan proceeds					-	2,579,400	2,579,400
Unrestricted interest on investments					28,298	57,070	85,368
Special assessments					4,522	-	4,522
Sale of assets					18,173	976	19,149
Miscellaneous					18,477	-	18,477
Transfers					(200,578)	200,578	-
Total general receipts and transfers					468,448	2,838,024	3,306,472
Change in cash basis net assets					(233,926)	1,046,699	812,773
Cash basis net assets beginning of year					1,127,101	1,674,015	2,801,116
Cash basis net assets end of year					\$ 893,175	\$ 2,720,714	\$ 3,613,889

(continued)

CITY OF HARTLEY
STATEMENT OF ACTIVITIES AND NET ASSETS – CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

Exhibit A
(continued)

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Charges for	Grants and	Grants and	Governmental	Business Type	
Disbursements	Services	Contributions	Contributions	Activities	Activities	Total
Cash Basis Net Assets						
Restricted:						
Nonexpendable:						
Cemetery perpetual care				\$ 91,512	\$ -	\$ 91,512
Expendable:						
Streets				142,213	-	142,213
Tax increment financing projects				18,446	-	18,446
Debt service				11,880	761,463	773,343
Other purposes				169,034	-	169,034
Unrestricted				460,090	1,959,251	2,419,341
Total cash basis net assets				\$ 893,175	\$ 2,720,714	\$ 3,613,889

See notes to financial statements

CITY OF HARTLEY
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

Exhibit B

	Special Revenue						
			Local Option Sales Tax	Tax Increment Financing	Library Expendable Trust	Nonmajor	Total
	General	Road Use					
Receipts:							
Property tax	\$ 201,974	\$ -	\$ -	\$ -	\$ -	\$ 100,947	\$ 302,921
Tax increment financing	-	-	-	189,906	-	-	189,906
Other city tax	-	-	106,729	-	-	-	106,729
Licenses and permits	4,295	-	-	-	-	-	4,295
Use of money and property	42,057	-	-	-	7,165	-	49,222
Intergovernmental	21,955	167,983	-	-	-	4,800	194,738
Charges for services	96,188	-	-	-	-	-	96,188
Special assessments	-	-	-	-	-	4,522	4,522
Miscellaneous	22,370	-	-	-	345	440	23,155
Total receipts	<u>388,839</u>	<u>167,983</u>	<u>106,729</u>	<u>189,906</u>	<u>7,510</u>	<u>110,709</u>	<u>971,676</u>
Disbursements:							
Operating:							
Public safety	277,500	-	-	-	-	-	277,500
Public works	72,530	169,131	-	-	-	-	241,661
Culture and recreation	180,634	-	-	-	21,439	-	202,073
Community and economic development	627	-	-	40,483	-	85,367	126,477
General government	86,688	-	-	-	-	-	86,688
Debt service	-	-	-	-	-	88,798	88,798
Total disbursements	<u>617,979</u>	<u>169,131</u>	<u>-</u>	<u>40,483</u>	<u>21,439</u>	<u>174,165</u>	<u>1,023,197</u>
Excess (deficiency) of receipts over disbursements	<u>(229,140)</u>	<u>(1,148)</u>	<u>106,729</u>	<u>149,423</u>	<u>(13,929)</u>	<u>(63,456)</u>	<u>(51,521)</u>
Other financing sources (uses):							
Proceeds from sale of assets	-	18,173	-	-	-	-	18,173
Operating transfers in	195,954	-	-	15,109	-	126,282	337,345
Operating transfers out	-	(15,109)	(122,300)	(304,538)	-	(95,976)	(537,923)
Total other financing sources (uses)	<u>195,954</u>	<u>3,064</u>	<u>(122,300)</u>	<u>(289,429)</u>	<u>-</u>	<u>30,306</u>	<u>(182,405)</u>
Net change in cash balances	(33,186)	1,916	(15,571)	(140,006)	(13,929)	(33,150)	(233,926)
Cash balances beginning of year	<u>244,022</u>	<u>140,297</u>	<u>91,289</u>	<u>158,452</u>	<u>263,183</u>	<u>229,858</u>	<u>1,127,101</u>
Cash balances end of year	\$ 210,836	\$ 142,213	\$ 75,718	\$ 18,446	\$ 249,254	\$ 196,708	\$ 893,175

CITY OF HARTLEY
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

Exhibit B
 (continued)

	Special Revenue						Total
	General	Road Use	Local Option Sales Tax	Tax Increment Financing	Library Expendable Trust	Nonmajor	
Cash Basis Fund Balances							
Reserved for debt service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,880	\$ 11,880
Unreserved:							
General fund	210,836	-	-	-	249,254	-	460,090
Special revenue funds	-	142,213	75,718	18,446	-	93,316	329,693
Permanent fund	-	-	-	-	-	91,512	91,512
Total cash basis fund balances	<u>\$ 210,836</u>	<u>\$ 142,213</u>	<u>\$ 75,718</u>	<u>\$ 18,446</u>	<u>\$ 249,254</u>	<u>\$ 196,708</u>	<u>\$ 893,175</u>

See notes to financial statements

CITY OF HARTLEY
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

Exhibit C

	Enterprise						
	Water	Sewer	Electric	Gas	Cable	Nonmajor	Total
Operating receipts:							
Use of money and property	\$ -	\$ -	\$ 603	\$ -	\$ -	\$ 1,000	\$ 1,603
Charges for services	295,279	196,909	1,490,755	1,099,790	123,638	125,139	3,331,510
Miscellaneous	-	917	20,491	13,488	120,975	11,875	167,746
Total operating receipts	295,279	197,826	1,511,849	1,113,278	244,613	138,014	3,500,859
Operating disbursements:							
Business type activities	233,915	242,436	1,209,611	928,427	13,831	116,501	2,744,721
Excess (deficiency) of operating receipts over operating disbursements	61,364	(44,610)	302,238	184,851	230,782	21,513	756,138
Non-operating receipts (disbursements):							
Interest on investments	9,646	1,188	28,911	6,389	8,474	2,462	57,070
Loan proceeds	2,579,400	-	-	-	-	-	2,579,400
Intergovernmental	380,796	174,977	-	-	-	-	555,773
Sale of assets	-	976	-	-	-	-	976
Debt service	(83,766)	(116,800)	(195,075)	-	(120,155)	-	(515,796)
Capital projects	(2,338,089)	(249,351)	-	-	-	-	(2,587,440)
Net non-operating receipts (disbursements)	547,987	(189,010)	(166,164)	6,389	(111,681)	2,462	89,983
Excess (deficiency) of receipts over disbursements	609,351	(233,620)	136,074	191,240	119,101	23,975	846,121
Transfers in	-	281,975	-	-	17,420	-	299,395
Transfers out	-	-	(56,786)	(42,031)	-	-	(98,817)
	-	281,975	(56,786)	(42,031)	17,420	-	200,578
Net change in cash balances	609,351	48,355	79,288	149,209	136,521	23,975	1,046,699
Cash balances beginning of year	(138,326)	63,126	1,134,638	193,088	274,308	147,181	1,674,015
Cash balances end of year	\$ 471,025	\$ 111,481	\$ 1,213,926	\$ 342,297	\$ 410,829	\$ 171,156	\$ 2,720,714
Cash Basis Fund Balances							
Reserved for debt service	\$ 87,142	\$ 8,785	\$ 494,053	\$ -	\$ 171,483	\$ -	\$ 761,463
Unreserved	383,883	102,696	719,873	342,297	239,346	171,156	1,959,251
Total cash basis fund balances	\$ 471,025	\$ 111,481	\$ 1,213,926	\$ 342,297	\$ 410,829	\$ 171,156	\$ 2,720,714

See notes to financial statements

CITY OF HARTLEY
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
FIDUCIARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

Exhibit D

Agency
Fund- Hart
2020

Receipts:	
None	\$ -
Disbursements:	
Community and economic development	<u>360</u>
Net change in cash balances	(360)
Cash balances beginning of year	<u>2,698</u>
Cash balances end of year	<u>\$ 2,338</u>
Cash Basis Fund Balances	
Reserved:	
Agency fund	<u>\$ 2,338</u>

See notes to financial statements

CITY OF HARTLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

City of Hartley is a political subdivision of the State of Iowa located in O'Brien County. It was first incorporated in 1888 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, general government services, and business type activities.

A. Reporting Entity

For financial reporting purposes, City of Hartley has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the City. The City has no component units which meet the Governmental Accounting Standard Board criteria.

Joint Ventures - City of Hartley has a 54% interest in a joint venture with City of Sanborn to provide garbage collection service. The cities participate in the collection of garbage, which is under the general management of one representative of each City Council. The following information summarizes the activity of the joint venture through June 30, 2010:

Receipts:

Contributions from other governments:

City of Hartley	\$ 64,800
City of Sanborn	55,200
Interest	132
	<u>120,132</u>

Disbursements:

Salaries	57,745
Benefits	29,994
Workers compensation insurance	5,666
Property insurance	4,300
Diesel fuel	13,068
Truck maintenance and repairs	13,146
Professional fees	286
Miscellaneous	539
	<u>124,744</u>

Net	(4,612)
Balance, beginning of year	5,503
Balance, end of year	<u>\$ 891</u>

City of Hartley has a 54% interest of the assets, property and equipment, equity, and net income.

CITY OF HARTLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

A. Reporting Entity - (Continued)

City of Hartley also has a 32.8% interest in Community Cable Television Agency of O'Brien County, a joint venture with the Cities of Paullina, Primghar, and Sanborn to provide cable television, telephone, and internet services. The cities participate in providing services, which is under the general management of one representative of each City Council. The City's share of equity in this organization as of June 30, 2010, is \$279,700.

Jointly Governed Organizations -The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of or appoint representatives to the following boards and commissions: O'Brien County Emergency Management Commission, O'Brien County E911 Service Board, O'Brien County Assessor's Conference Board, and Northwest Iowa Area Solid Waste Agency. Payments made to Northwest Iowa Area Solid Waste Agency during the year ended June 30, 2010, were \$18,099.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in the following categories/components:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City.

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and, (2) grants, contributions, and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

CITY OF HARTLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Basis of Presentation - (Continued)

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the main operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges, and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Fund is used to account for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for monies received to be used for community betterment.

The Tax Increment Financing Fund is used to account for urban renewal projects financed by tax increment financing.

The Library Expendable Trust Fund is used to account for contributions from citizens to be used for library projects.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's sewer system.

The Electric Fund accounts for the operation and maintenance of the City's electric system.

The Gas Fund accounts for the operation and maintenance of the City's gas system.

The Cable Fund accounts for receipts and disbursements from the City's cable television system as maintained by Community Cable Television Agency of O'Brien County.

The City also reports the following fiduciary fund:

The Agency fund is used to account for fiduciary assets held by the City in a custodial capacity or as an agent on behalf of others.

CITY OF HARTLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Measurement Focus and Basis of Accounting

City of Hartley maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the public safety and public works functions.

2. CASH

The City's deposits in banks at June 30, 2010 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement Number 3, as amended by Statement 40.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

CITY OF HARTLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

3. NOTES PAYABLE

Annual debt service requirements to maturity for general obligation and revenue notes are as follows:

Year Ending June 30,	Revenue Notes		General Obligation Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 358,000	\$ 224,112	\$ 88,000	\$ 34,635	\$ 446,000	\$ 258,747
2012	411,000	201,850	89,000	30,710	500,000	232,560
2013	432,000	184,482	95,000	26,712	527,000	211,194
2014	450,000	165,881	51,000	22,373	501,000	188,254
2015	467,000	146,274	53,000	20,295	520,000	166,569
2016-2020	1,834,000	449,030	220,000	69,898	2,054,000	518,928
2021-2025	1,093,000	203,828	155,000	38,512	1,248,000	242,340
2026-2030	586,000	53,594	142,000	11,700	728,000	65,294
	<u>\$ 5,631,000</u>	<u>\$ 1,629,051</u>	<u>\$ 893,000</u>	<u>\$ 254,835</u>	<u>\$ 6,524,000</u>	<u>\$ 1,883,886</u>

Revenue Notes

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$400,000 and \$1,000,000 in water revenue notes issued in November, 2003 and July, 2009, respectively. Proceeds from the notes provided financing for constructing improvements and extensions to the water system. The notes are payable solely from water customer net receipts and are payable through 2018 and 2029, respectively. The total principal and interest remaining to be paid on the bonds is \$1,598,797. For the current year, principal and interest paid and total customer net receipts were \$83,766 and \$61,364, respectively.

Included in the above revenue notes is a forgivable water loan with payments totaling \$1,040,000 in principal and \$405,948 in interest. If not forgiven, these bonds are payable solely from water customer net receipts and are payable through 2030. This loan was made with funds from the American Recovery and Reinvestment Act of 2009 (ARRA). For this loan to be forgiven the City must comply with all applicable ARRA requirements and the issuer (Iowa Department of Natural Resources) may, in its sole discretion, terminate this loan and issue a replacement loan from non-ARRA funds, which would require repayment from the City. As of June 30, 2010 this loan has not been forgiven.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$1,732,000 in sewer revenue notes issued in July and December, 2004. Proceeds from the notes provided financing for the construction of improvements to the sewer treatment plant. The notes are payable solely from sewer customer net receipts and are payable through 2025. The total principal and interest remaining to be paid on the notes is \$1,772,645. For the current year, principal and interest paid and total customer net receipts were \$116,800 and (\$44,610) respectively.

The City has pledged future electric customer receipts, net of specified operating disbursements, to repay \$1,900,000 in electric revenue capital loan notes issued in February, 2001. Proceeds from the notes provided financing for construction of improvements to the electric system. The notes are payable solely from electric customer net receipts and are payable through 2017. The total principal and interest remaining to be paid on the notes is \$1,376,466. For the current year, principal and interest paid and total customer net receipts were \$195,075 and \$302,238 respectively.

CITY OF HARTLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

3. NOTES PAYABLE - (Continued)

The City has pledged future telecommunication customer receipts, net of specified operating disbursements, to repay \$1,300,000 in telecommunication revenue capital loan notes issued in March, 2004. Proceeds from the notes provided financing for the construction of improvements to the telecommunication system. The notes are payable solely from telecommunication customer net receipts and are payable through 2019. The total principal and interest remaining to be paid on the notes is \$1,066,195. For the current year, principal and interest paid and total customer net receipts were \$120,155 and \$230,782 respectively.

The resolutions providing for the issuance of revenue notes include the following provisions:

- A. The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- B. Sufficient monthly transfers shall be made to separate sewer, electric, water, and telecommunication revenue note sinking accounts within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- C. The City is to establish separate Electric, Water, and Telecommunication, Principal and Interest Reserve Accounts into which there shall be set apart and paid at the time of delivery of the obligations the sum of \$190,000 for electric and \$40,000 for water. Sufficient monthly transfers shall be made to the telecommunication reserve account in an amount equal to twenty five percent of the monthly sinking fund transfers until a balance of \$130,000 has been accumulated.
- D. Additional monthly transfers of \$1,650 to the Electric Improvement Fund and \$1,000 to the Water Improvement Fund shall be made until the sum of \$150,000 and \$36,000 has been accumulated, respectively. These accounts are restricted for the purpose of paying for necessary repairs, improvements, and extensions to the system.

4. OPERATING LEASE

The city leases a copier system. Rental expense incurred for this lease was \$4,157 for the year ended June 30, 2010. Minimum amounts payable under this operating lease are as follows:

Year Ending June 30	
2011	\$ 4,157
2012	3,117

5. PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

CITY OF HARTLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

5. PENSION AND RETIREMENT BENEFITS – (continued)

Most regular plan members are required to contribute 4.30% of their annual covered salary and the City is required to contribute 6.65% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2010, 2009, 2008, were \$43,220, \$38,807, and \$35,079 respectively, equal to the required contributions for each year.

6. COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave payable to employees at June 30, 2010, primarily relating to the Enterprise Funds, is as follows:

<u>Type of Benefit</u>	
Vacation	\$ 28,101
Sick Leave	148,475
Total	<u>\$ 176,576</u>

Sick leave is payable when used or upon retirement or death. If paid upon retirement or death, the total accumulated hours are paid at the then effective hourly rate for that employee. This liability has been computed based on rates of pay in effect at June 30, 2010.

7. INTERGOVERNMENTAL AGREEMENTS

The City has entered into an agreement with Northwest Iowa Area Solid Waste Agency, in accordance with Chapter 28E of the Code of Iowa, for disposal of solid waste from within the City. Payments under this agreement were \$18,099 for the year ended June 30, 2010.

State and federal laws and regulations require the Agency to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The closure and post-closure costs to the agency have been estimated at \$2,207,425 as of June 30, 2010, and the Agency has begun to accumulate resources to fund these costs. As of June 30, 2010, deposits of \$1,456,299 are held for these purposes. No estimate has been made regarding the effect of future assessments to the City.

8. EQUITY IN COOPERATIVE

City of Hartley is a member of the Missouri Basin Municipal Electric Cooperative Association. The City's share of equity in this cooperative at June 30, 2010, consists of the following:

Transmission capacity	\$ 285,629
Members' advances for transmission capacity	192,703
Other members' capital	15,737
Membership	100
	<u>\$ 494,169</u>

CITY OF HARTLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

8. EQUITY IN COOPERATIVE – (continued)

Transmission Capacity - Transmission capacity is stated at cost and consists of contributions made under the Transmission Agreement for the NIPCO transmission system. Transmission capacity is being amortized on a straight-line basis over thirty-five years.

Members' Advances for Transmission Capacity - Members' advances for transmission capacity consist of contributions by the members and net interest earned on investments allocated to the members. These advances from the participating Transmission Members are being held for future transmission capacity contributions by the Association in its capacity as agent for these members.

Other Members' Capital - Other members' capital consists of patronage dividends declared by NIPCO, but unpaid.

9. INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2010, is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Employee Benefit	\$ 95,976
	Local Option Sales Tax	18,581
	Enterprise:	
	Electric	48,166
	Gas	33,231
		<u>195,954</u>
Debt Service	Special Revenue:	
	Tax Increment Financing	39,413
	Local Option Sales Tax	9,259
		<u>48,672</u>
Special Revenue:		
Economic Development	Special Revenue:	
	Local Option Sales Tax	<u>77,610</u>
Enterprise:		
Sewer	Special Revenue:	
	Tax Increment Financing	265,125
	Local Option Sales Tax	16,850
		<u>281,975</u>
Special Revenue:		
Tax Increment Financing	Special Revenue:	
	Road Use	<u>15,109</u>
Enterprise:		
Cable	Enterprise:	
	Electric	8,620
	Gas	8,800
		<u>17,420</u>
		<u>\$ 636,740</u>

CITY OF HARTLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

9. INTERFUND TRANSFERS – (continued)

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

10. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description – The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 15 active members and 1 retired member in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$417 for single coverage \$854 for spouse only coverage and \$1,280 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2010, the City contributed \$127,734 and plan members eligible for benefits contributed \$11,357 to the plan.

11. RISK MANAGEMENT

City of Hartley is exposed to various risks of loss related to torts; theft, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

12. PROMISSORY NOTES

On April 6, 1998, City of Hartley received two promissory notes from Hartley Housing Associates, Limited Partnership, in the amounts of \$40,000 and \$30,000 with interest at two percent and one percent, respectively. Repayment terms are \$2,049 and \$2,164 annually respectively, beginning May 1, 1999, with final payment coming due on May 1, 2013. However, because of limited "surplus cash" available there has only been one payment made on each of these notes since inception. The note agreement does allow this to occur but does stipulate that any unpaid portion shall accrue interest. These notes are secured by mortgages on residential lots owned by the borrower. The funds are to be used to develop affordable rental housing.

13. CONSTRUCTION CONTRACTS AND COMMITMENTS

The City has entered into the following contracts which were not completed as of June 30, 2010.

<u>Project</u>	<u>Total Contract Amount</u>	<u>Amount Paid As of June 30, 2010</u>	<u>Remaining Commitment As of June 30, 2010</u>
2008 PCC paving project	\$ 418,657	\$ 406,792	\$ 11,865
Engineering-water plant	651,764	582,110	69,654
Water treatment plant	2,329,375	1,954,684	374,691
Substation improvement	35,348	32,728	2,620
Sewer plant project	283,913	218,596	65,317

CITY OF HARTLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

13. CONSTRUCTION CONTRACTS AND COMMITMENTS – (continued)

The remaining commitments on these projects will be financed with grant proceeds and funds on hand.

14. ASSISTED LIVING FACILITY REVENUE BONDS

The City has approved issuing up to \$1,400,000 and \$2,500,000 respectively, of assisted living facility revenue bonds under the provisions of Chapter 419 of the Code of Iowa, of which \$238,132 and \$2,179,236 is outstanding at June 30, 2010. The bonds and related interest are payable solely from the revenues of Community Memorial Health Center Association and do not constitute liabilities of the City.

15. RELATED PARTY TRANSACTIONS

The City had business transactions between the City and City officials or employees totaling \$10,541 during the year ended June 30, 2010.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HARTLEY
BUDGETARY COMPARISON SCHEDULE OF
RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES –
BUDGET AND ACTUAL (CASH BASIS) – ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2010

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgeted Amounts		Final To Total Variance
				Original	Final	
Receipts:						
Property tax	\$ 302,921	\$ -	\$ 302,921	\$ 304,968	\$ 304,968	\$ (2,047)
Tax increment financing	189,906	-	189,906	187,000	187,000	2,906
Other city tax	106,729	-	106,729	144,000	144,000	(37,271)
Licenses and permits	4,295	-	4,295	3,350	3,350	945
Use of money and property	49,222	58,673	107,895	99,341	99,341	8,554
Intergovernmental	194,738	555,773	750,511	507,637	507,637	242,874
Charges for service	96,188	3,331,510	3,427,698	2,953,650	2,953,650	474,048
Special assessments	4,522	-	4,522	250	250	4,272
Miscellaneous	23,155	167,746	190,901	157,561	157,561	33,340
Total receipts	<u>971,676</u>	<u>4,113,702</u>	<u>5,085,378</u>	<u>4,357,757</u>	<u>4,357,757</u>	<u>727,621</u>
Disbursements:						
Public safety	277,500	-	277,500	274,902	274,902	(2,598)
Public works	241,661	-	241,661	173,804	239,804	(1,857)
Culture and recreation	202,073	-	202,073	202,715	227,715	25,642
Community and economic development	126,477	-	126,477	272,858	272,858	146,381
General government	86,688	-	86,688	120,590	120,590	33,902
Debt service	88,798	-	88,798	92,300	128,300	39,502
Business type activities	-	5,847,957	5,847,957	6,409,703	6,409,703	561,746
Total disbursements	<u>1,023,197</u>	<u>5,847,957</u>	<u>6,871,154</u>	<u>7,546,872</u>	<u>7,673,872</u>	<u>802,718</u>
Deficiency of receipts over disbursements	(51,521)	(1,734,255)	(1,785,776)	(3,189,115)	(3,316,115)	1,530,339
Other financing sources, net	(182,405)	2,780,954	2,598,549	-	3,000,000	(401,451)
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(233,926)	1,046,699	812,773	(3,189,115)	(316,115)	1,128,888
Balance, beginning of year	<u>1,127,101</u>	<u>1,674,015</u>	<u>2,801,116</u>	<u>5,334,803</u>	<u>5,334,803</u>	<u>(2,533,687)</u>
Balance, end of year	<u>\$ 893,175</u>	<u>\$ 2,720,714</u>	<u>\$ 3,613,889</u>	<u>\$ 2,145,688</u>	<u>\$ 5,018,688</u>	<u>\$ (1,404,799)</u>

See accompanying independent auditor's report.

CITY OF HARTLEY
NOTES TO REQUIRED SUPPLEMENTARY
INFORMATION – BUDGETARY REPORTING
JUNE 30, 2010

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Permanent Fund, the Debt Service Fund, and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year ended June 30, 2010 the budget was amended one time which increased budgeted disbursements by \$127,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the public safety and public works functions.

SUPPLEMENTARY INFORMATION

CITY OF HARTLEY
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

Schedule 1

	<u>Special Revenue</u>			<u>Permanent</u>		
	Employee	Economic	Owner	Debt	Cemetery	
	Benefits	Development	Occupied	Service	Perpetual	Total
			Rehab		Care	
Receipts:						
Property Tax	\$ 100,947	\$ -	\$ -	\$ -	\$ -	\$ 100,947
Intergovernmental	-	-	4,800	-	-	4,800
Special assessments	-	-	-	4,522	-	4,522
Miscellaneous	-	-	-	-	440	440
Total receipts	<u>100,947</u>	<u>-</u>	<u>4,800</u>	<u>4,522</u>	<u>440</u>	<u>110,709</u>
Disbursements:						
Operating:						
Community and economic development	-	75,531	9,836	-	-	85,367
Debt Service	-	-	-	88,798	-	88,798
Total disbursements	<u>-</u>	<u>75,531</u>	<u>9,836</u>	<u>88,798</u>	<u>-</u>	<u>174,165</u>
Excess (deficiency) of revenues over disbursements	<u>100,947</u>	<u>(75,531)</u>	<u>(5,036)</u>	<u>(84,276)</u>	<u>440</u>	<u>(63,456)</u>
Other financing sources (uses):						
Transfers in	-	77,610	-	48,672	-	126,282
Transfers out	<u>(95,976)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(95,976)</u>
Total other financing sources and uses	<u>(95,976)</u>	<u>77,610</u>	<u>-</u>	<u>48,672</u>	<u>-</u>	<u>30,306</u>
Net change in cash balances	4,971	2,079	(5,036)	(35,604)	440	(33,150)
Cash balances beginning of year	<u>81,229</u>	<u>-</u>	<u>10,073</u>	<u>47,484</u>	<u>91,072</u>	<u>229,858</u>
Cash balances end of year	<u>\$ 86,200</u>	<u>\$ 2,079</u>	<u>\$ 5,037</u>	<u>\$ 11,880</u>	<u>\$ 91,512</u>	<u>\$ 196,708</u>
Cash Basis Fund Balances						
Reserved for debt service	\$ -	\$ -	\$ -	\$ 11,880	\$ -	\$ 11,880
Unreserved:						
Special Revenue	86,200	2,079	5,037	-	-	93,316
Permanent	-	-	-	-	91,512	91,512
Total cash basis fund balances	<u>\$ 86,200</u>	<u>\$ 2,079</u>	<u>\$ 5,037</u>	<u>\$ 11,880</u>	<u>\$ 91,512</u>	<u>\$ 196,708</u>

See accompanying independent auditor's report

CITY OF HARTLEY
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
NONMAJOR PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

Schedule 2

	<u>Enterprise</u>		
	<u>Solid</u>	<u>Consumer</u>	
	<u>Waste</u>	<u>Deposit</u>	<u>Total</u>
Operating Receipts:			
Use of money and property	\$ 1,000	\$ -	\$ 1,000
Charges for services	125,139	-	125,139
Miscellaneous	-	11,875	11,875
Total operating receipts	<u>126,139</u>	<u>11,875</u>	<u>138,014</u>
Operating disbursements:			
Business type activities	<u>101,971</u>	<u>14,530</u>	<u>116,501</u>
Excess (deficiency) of operating receipts over operating disbursements	24,168	(2,655)	21,513
Non-operating receipts:			
Interest on investments	<u>2,462</u>	<u>-</u>	<u>2,462</u>
Net change in cash balances	26,630	(2,655)	23,975
Cash balances beginning of year	<u>108,420</u>	<u>38,761</u>	<u>147,181</u>
Cash balances end of year	<u>\$ 135,050</u>	<u>\$ 36,106</u>	<u>\$ 171,156</u>
Cash Basis Fund Balances			
Unreserved	<u>\$ 135,050</u>	<u>\$ 36,106</u>	<u>\$ 171,156</u>
Total cash basis fund balances	<u>\$ 135,050</u>	<u>\$ 36,106</u>	<u>\$ 171,156</u>

See accompanying independent auditor's report

CITY OF HARTLEY
SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2010

Schedule 3

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>	<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
Revenue Notes:									
Electric	February 1, 2001	5.20 - 5.55%	\$ 1,900,000	\$ 1,275,000	\$ -	\$ 130,000	\$ 1,145,000	\$ 65,075	\$ -
Water	November 1, 2003	4.25 - 5.20	400,000	265,000	-	25,000	240,000	12,555	-
Telecommunication	March 1, 2004	3.70 - 4.90	1,300,000	940,000	-	80,000	860,000	40,155	-
Sewer	July 20, 2004	3.00	1,300,000	1,098,000	-	55,000	1,043,000	32,940	-
Sewer	December 2, 2004	3.00	432,000	362,000	-	18,000	344,000	10,860	-
Water	July 1, 2009	3.00	1,000,000	-	995,000	36,000	959,000	10,211	-
Water-Forgivable	November 4, 2009	3.00	1,040,000	-	1,040,000	-	1,040,000	-	-
Total			<u>\$ 7,372,000</u>	<u>\$ 3,940,000</u>	<u>\$ 2,035,000</u>	<u>\$ 344,000</u>	<u>\$ 5,631,000</u>	<u>\$ 171,796</u>	<u>\$ -</u>
General Obligation Notes:									
Library	June 1, 2001	4.90 - 5.10%	\$ 400,000	\$ 160,000	\$ -	\$ 35,000	125,000	\$ 7,935	\$ -
Street Improvement	June 1, 2008	4.75	280,000	254,000	-	26,000	228,000	12,065	-
Water	July 1, 2009	3.00	560,000	-	560,000	20,000	540,000	14,563	-
Total			<u>\$ 1,240,000</u>	<u>\$ 414,000</u>	<u>\$ 560,000</u>	<u>\$ 81,000</u>	<u>\$ 893,000</u>	<u>\$ 34,563</u>	<u>\$ -</u>
Special Assessment									
Street Improvement	September 1, 2000	6.00%	<u>\$ 92,000</u>	<u>\$ 10,000</u>	<u>\$ -</u>	<u>\$ 10,000</u>	<u>\$ -</u>	<u>\$ 600</u>	<u>\$ -</u>

See accompanying independent auditor's report

CITY OF HARTLEY
NOTE MATURITIES
JUNE 30, 2010

Schedule 4

Revenue Notes

Year Ending June 30	Electric Issued February 1, 2001		Telecommunications Issued March 1, 2004		Water Issued November 1, 2003		Sewer Issued July 20, 2004		Sewer Issued December 2, 2004		Water Issued July 1, 2009		Water Issued November 4, 2009		Total
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2011	5.20%	\$ 140,000	3.70%	\$ 80,000	4.25%	\$ 25,000	3.00%	\$ 56,000	3.00%	\$ 19,000	3.00%	\$ 37,000	3.00%	\$ 1,000	\$ 358,000
2012	5.25	145,000	3.85	85,000	4.45	25,000	3.00	58,000	3.00	19,000	3.00	39,000	3.00	40,000	411,000
2013	5.30	155,000	4.00	85,000	4.60	30,000	3.00	60,000	3.00	20,000	3.00	40,000	3.00	42,000	432,000
2014	5.40	165,000	4.15	90,000	4.75	30,000	3.00	61,000	3.00	20,000	3.00	41,000	3.00	43,000	450,000
2015	5.45	170,000	4.30	95,000	4.90	30,000	3.00	63,000	3.00	21,000	3.00	43,000	3.00	45,000	467,000
2016	5.50	180,000	4.45	100,000	5.00	30,000	3.00	65,000	3.00	22,000	3.00	44,000	3.00	46,000	487,000
2017	5.55	190,000	4.60	105,000	5.10	35,000	3.00	67,000	3.00	22,000	3.00	45,000	3.00	47,000	511,000
2018	-	-	4.75	105,000	5.20	35,000	3.00	69,000	3.00	23,000	3.00	47,000	3.00	49,000	328,000
2019	-	-	4.90	115,000	-	-	3.00	71,000	3.00	24,000	3.00	48,000	3.00	51,000	309,000
2020	-	-	-	-	-	-	3.00	73,000	3.00	24,000	3.00	50,000	3.00	52,000	199,000
2021	-	-	-	-	-	-	3.00	75,000	3.00	25,000	3.00	52,000	3.00	54,000	206,000
2022	-	-	-	-	-	-	3.00	78,000	3.00	26,000	3.00	53,000	3.00	56,000	213,000
2023	-	-	-	-	-	-	3.00	80,000	3.00	26,000	3.00	55,000	3.00	57,000	218,000
2024	-	-	-	-	-	-	3.00	82,000	3.00	27,000	3.00	57,000	3.00	59,000	225,000
2025	-	-	-	-	-	-	3.00	85,000	3.00	26,000	3.00	59,000	3.00	61,000	231,000
2026	-	-	-	-	-	-	-	-	-	-	3.00	61,000	3.00	63,000	124,000
2027	-	-	-	-	-	-	-	-	-	-	3.00	62,000	3.00	65,000	127,000
2028	-	-	-	-	-	-	-	-	-	-	3.00	64,000	3.00	67,000	131,000
2029	-	-	-	-	-	-	-	-	-	-	3.00	62,000	3.00	70,000	132,000
2030	-	-	-	-	-	-	-	-	-	-	-	-	3.00	72,000	72,000
		<u>\$ 1,145,000</u>		<u>\$ 860,000</u>		<u>\$ 240,000</u>		<u>\$ 1,043,000</u>		<u>\$ 344,000</u>		<u>\$ 959,000</u>		<u>\$ 1,040,000</u>	<u>\$ 5,631,000</u>

General Obligation Notes

Year Ending June 30	Library Notes Issued June 1, 2001		Street Improvement Issued June 1, 2008		Water Notes Issued July 1, 2009		Total
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2011	4.90%	\$ 40,000	4.75%	\$ 27,000	3.00%	\$ 21,000	\$ 88,000
2012	5.00	40,000	4.75	27,000	3.00	22,000	89,000
2013	5.10	45,000	4.75	28,000	3.00	22,000	95,000
2014	-	-	4.75	28,000	3.00	23,000	51,000
2015	-	-	4.75	29,000	3.00	24,000	53,000
2016	-	-	4.75	29,000	3.00	25,000	54,000
2017	-	-	4.75	30,000	3.00	25,000	55,000
2018	-	-	4.75	30,000	3.00	26,000	56,000
2019	-	-	-	-	3.00	27,000	27,000
2020	-	-	-	-	3.00	28,000	28,000
2021	-	-	-	-	3.00	29,000	29,000
2022	-	-	-	-	3.00	30,000	30,000
2023	-	-	-	-	3.00	31,000	31,000
2024	-	-	-	-	3.00	32,000	32,000
2025	-	-	-	-	3.00	33,000	33,000
2026	-	-	-	-	3.00	34,000	34,000
2027	-	-	-	-	3.00	35,000	35,000
2028	-	-	-	-	3.00	36,000	36,000
2029	-	-	-	-	3.00	37,000	37,000
		<u>\$ 125,000</u>		<u>\$ 228,000</u>		<u>\$ 540,000</u>	<u>\$ 893,000</u>

See accompanying independent auditor's report

CITY OF HARTLEY
SCHEDULE OF RECEIPTS BY SOURCE AND
DISBURSEMENTS BY FUNCTION
ALL GOVERNMENTAL FUNDS
FOR THE LAST EIGHT YEARS

Schedule 5

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Receipts:								
Property tax	\$ 302,921	\$ 285,470	\$ 343,191	\$ 331,406	\$ 257,032	\$ 258,995	\$ 268,036	\$ 259,089
Tax increment financing	189,906	197,368	129	51,597	252,592	225,368	195,663	190,439
Other city tax	106,729	174,170	144,957	133,908	105,092	104,751	100,648	102,318
Licenses and permits	4,295	3,567	5,812	4,822	2,504	1,722	2,276	2,078
Use of money and property	49,222	47,659	82,017	92,321	71,301	70,569	51,061	25,239
Intergovernmental	194,738	324,980	207,138	313,154	291,785	222,787	193,663	183,300
Charges for service	96,188	92,768	80,276	81,220	76,163	59,127	58,675	85,040
Special assessments	4,522	7,918	8,844	8,751	10,920	14,771	26,674	16,620
Miscellaneous	23,155	43,354	37,964	20,428	36,494	328,814	42,931	28,748
Total	<u>\$ 971,676</u>	<u>\$ 1,177,254</u>	<u>\$ 910,328</u>	<u>\$ 1,037,607</u>	<u>\$ 1,103,883</u>	<u>\$ 1,286,904</u>	<u>\$ 939,627</u>	<u>\$ 892,871</u>
Disbursements:								
Operating:								
Public safety	\$ 277,500	\$ 263,584	\$ 247,013	\$ 198,068	\$ 198,068	\$ 239,950	\$ 215,464	\$ 345,606
Public works	241,661	293,157	270,278	121,779	121,779	128,081	337,381	164,224
Culture and recreation	202,073	326,516	177,783	186,992	186,992	149,383	163,893	171,509
Community and economic development	126,477	526,164	218,560	137,104	137,104	64,821	107,193	2,791
General government	86,688	93,356	65,888	82,092	82,092	73,675	96,598	89,965
Debt service	88,798	56,470	58,660	57,460	57,460	59,300	61,000	67,503
Total	<u>\$ 1,023,197</u>	<u>\$ 1,559,247</u>	<u>\$ 1,038,182</u>	<u>\$ 783,495</u>	<u>\$ 783,495</u>	<u>\$ 715,210</u>	<u>\$ 981,529</u>	<u>\$ 841,598</u>

See accompanying independent auditor's report

CITY OF HARTLEY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010

Schedule 6

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Agency Pass-through Number</u>	<u>Program Expenditures</u>
Indirect:			
U.S. Department of Housing And Urban Development:			
Iowa Department of Economic Development:			
Community Development			
Block Grant/State's Program:			
Housing Rehabilitation	14.228	09-HSG-063	\$ 9,777
Wastewater System	14.228	08-WS-031-07	377,305
			<u>387,082</u>
U.S. Environmental Protection Agency:			
Iowa Department of Natural Resources:			
ARRA-Capitalization Grants for Drinking Water State Revolving Funds	66.468	FS-71-07-DWSRF-019	<u>1,040,000</u>
U.S. Department of Education:			
Iowa Department of Transportation:			
ARRA-State Fiscal Stabilization Fund-Government Services, Recovery Act	84.397	S397A090016A	<u>2,069</u>
U.S. Department of Homeland Security:			
Iowa Department of Public Defense:			
Iowa Homeland Security and Emergency Management Division:			
Disaster Grants – Public Assistance (Presidentially Declared Disaster)	97.036		<u>7,227</u>
			<u>\$ 1,436,378</u>

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of City of Hartley and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report

HUNZELMAN, PUTZIER & CO., PLC
CERTIFIED PUBLIC ACCOUNTANTS

JEFFORY B. STARK, C.P.A.
RICHARD R. MOORE, C.P.A.
WESLEY E. STILLE, C.P.A. (RETIRED)
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Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with Government Auditing Standards

To the Honorable Mayor and
Members of the City Council
Hartley, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Hartley, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated February 14, 2011. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Hartley's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Hartley's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Hartley's internal control over financial reporting.

Our consideration of internal control over financial reporting was for limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in Part II of the accompanying Schedule of Findings as items II-A-10 and II-B-10 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control, which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did not identify any significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Hartley's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain instances of noncompliance or other matters that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2010, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Hartley's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit City of Hartley's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of City of Hartley, and other parties to whom City of Hartley may report, including federal awarding agencies and pass-through entities. This report is not intended to be, and should not be, used by anyone other than these specified parties.

February 14, 2011

Hungelman, Putzier & Co.

HUNZELMAN, PUTZIER & CO., PLC
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Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133

To the Honorable Mayor and
Members of the City Council
Hartley, Iowa

Compliance

We have audited the compliance of City of Hartley, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2010. City of Hartley's major federal program is identified in Part I of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to its major federal program is the responsibility of City of Hartley's management. Our responsibility is to express an opinion on City of Hartley's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Hartley's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on City of Hartley's compliance with those requirements.

In our opinion, City of Hartley complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2010.

Internal Control Over Compliance

The management of City of Hartley is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we considered City of Hartley's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Hartley's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We noted no matters involving internal control over compliance we consider to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of City of Hartley and other parties to whom City of Hartley may report, including federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

February 14, 2011

Hungelman, Putzier & Co.

CITY OF HARTLEY
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2010

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major program were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 66.468 – ARRA-Capitalization Grants for Drinking Water State Revolving Funds.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) City of Hartley did not qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

- II-A-10 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that bank deposits, opening mail, recording receipts and disbursements, checks and payroll preparation, and bank reconciliations are all handled by either of two individuals.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - It is our practice to cross train each employee on all aspects of our office. Each employee is assigned specific responsibilities. The cross training is used primarily to allow for vacations and unexpected illnesses. We will continue to look for ways to adjust our operating procedures to obtain the maximum internal control possible under the circumstances.

Conclusion - Response accepted.

CITY OF HARTLEY
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2010

Part II: Findings Related to the Financial Statements: (Continued)

INTERNAL CONTROL DEFICIENCIES: (continued)

- II-B-10 Financial Reporting – We noted that while management is capable of preparing accurate financial statements that provide information sufficient for City council members to make management decisions, reporting financial data reliably in accordance with an other comprehensive basis of accounting (OCBOA) requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. Management presently lacks the qualifications and training to appropriately fulfill these responsibilities, which is a common situation in small entities.

Recommendation – Obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in the ability to prepare and take responsibility for reliable OCBOA financial statements.

Response – The City Clerk/Administrator will try to attend educational courses to be able to report financial data using OCBOA and work with our auditors to make sure we are reporting correctly.

Conclusion – Response accepted.

Part III: Other Findings Related to Required Statutory Reporting:

- III-A-10 Certified Budget - Disbursements during the year ended June 30, 2010, exceeded the amounts budgeted in the public works function prior to the May 24, 2010 budget amendment, and in the public safety and public works functions at June 30, 2010. Chapter 384.20 of the Code of Iowa states in part that public moneys may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – We try to control costs and time by amending the budget once a year and situations occur with City expenditures that are beyond our control. We will monitor funds more closely in the future and amend the budget before expenditures exceed the budget.

Conclusion – Response accepted.

- III-B-10 Questionable Disbursements – We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- III-C-10 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

CITY OF HARTLEY
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2010

Part III: Other Findings Related to Required Statutory Reporting: (Continued)

III-D-10 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Kevin Snider, Council Member, owner of Snider Auto Care Center	Repairs/service	\$2,337
Ron Hengeveld, Council Member, owns Hengeveld Construction	Repairs	\$5,065
Sheri Tewes, Deputy Clerk, mother owns Fanning Construction	Labor and materials	\$3,139

In accordance with Chapter 362.5(11) of the Code of Iowa, the transactions with Council Member Snider do not appear to represent a conflict of interest since the total transactions were less than \$2,500 during the fiscal year. The remaining transactions may represent a conflict of interest since the cumulative amounts were more than \$2,500 during the fiscal year.

Recommendation - The Code does allow the City to transact business with City officers or employees in excess of \$2,500 but only if the contract is made subject to a competitive bid in writing, publicly invited, and opened. The City should consult their attorney to determine that they are in compliance with the Code of Iowa.

Response - We will monitor our transactions and make sure we do not have a conflict of interest and consult with our city attorney.

Conclusion - Response accepted.

III-E-10 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

III-F-10 City Council and S & H Minutes - The City Council minutes after February 22, 2010, were not signed, and the minutes of S & H, a 28E organization, also were not signed. The minutes of S & H were not published in accordance with Chapter 28E.6 of the Code of Iowa. This section requires the publication to include a schedule of bills allowed, and that salaries of employees be published annually.

Recommendation - The City should ensure that the Council minutes are signed and that S & H comply with the requirements for publication of their minutes.

Response - The City will ensure that minutes are signed and will comply with publication requirements as identified by the auditors for S & H, the 28E organization.

Conclusion - Response accepted.

CITY OF HARTLEY
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2010

Part III: Other Findings Related to Required Statutory Reporting: (Continued)

III-G-10 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

III-H-10 Revenue Notes - The City has established the sinking and reserve accounts required by the sewer, electric, water, and telecommunication revenue note resolutions. However, the sewer sinking fund was under funded as of June 30, 2010, by \$938.

Recommendation - The City should make the appropriate transfer to bring the balance up to the required level.

Response - We will monitor the sinking funds more closely and make sure the correct amount is in the sinking funds to pay off debt. We will make the necessary transfers to match the balances required.

Conclusion - Response accepted.

III-I-10 Excess Balances - The following fund has a balance at June 30, 2010, which is in excess of one year's expenditures:

Special Revenue - Library Expendable Trust

Recommendation - While it appears that this fund may have an excessive balance, this can usually be justified if the City has a specific plan for future expenditures. The City should consider the necessity of maintaining this substantial balance and, where financially feasible, consider reducing the balance in an orderly manner through revenue reductions.

Response - The balance in this account is expendable only according to certain criteria of the trust when it was set up. This amount was received from an estate and it is disbursed according to the library's needs for the specified trust criteria as determined by the Library Board.

Conclusion - Response accepted.